Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/27/2001

GAIN Report #CH1028

China, Peoples Republic of

Oilseeds and Products

MOA Assesses the Impact of Biotech Regulation

2001

Approved by:
Larry Senger
U.S. Embassy
Prepared by:
Freda Chao/Ralph Bean

Report Highlights:
China's new regulations on management and labeling of GMOs has raised fears that it will limit soybean imports. The Ministry of Agriculture recently published its own analysis of the impact that restricting imports would have on China. A translation of that analysis is included in the report.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Beijing [CH1], CH

MOA's Assessment of the GMO Management Regulation

China recently issued a regulation on the management of genetically modified organisms that could have a substantial impact on soybean imports. Among other things, the regulation will require safety certification of all domestic and imported GMOs, and labeling of GMOs and processed products containing GMO materials. Just how much impact this regulation will have on trade will depend on the implementing regulations. These are now being drafted by the Ministry of Agriculture. The MOA website's analysis and forecasting department recently published its own appraisal of the impact that restricting GMO imports would have on China. While some of the details and analysis are different, their conclusions are similar to those of Post. The translated text of the article follows. A Chinese language version is available at http://www.agri.gov.cn for those with the appropriate software.

[Begin translation]

The Impact of Not Importing GMO Soybeans

If China chooses not to import GMO soybeans, the impact on world supply and demand will be significant, widening the gap between supply and demand.

1. According to the USDA's June Supply and Demand Estimates, the three largest soybean producers, the U.S., Brazil and Argentina, will supply 80% of the world's total 172.43 MMT of soybeans. Total world soybean trade is estimated at 50.95 MMT, with the U.S., Brazil and Argentina accounting for 27.08, 13.3 and 6 MMT, respectively.

2. Since 63% of U.S. soybean acreage in 2001 is GMO, and GMO soybeans account for over 20% of soybean acreage in Brazil and 50% in Argentina, the estimated production of non-GMO soybeans is only 65.61 MMT. Once domestic consumption is taken into account, it is difficult to estimate how many non-GMO soybeans will be left to meet China's import demand.

3. China's estimated soybean imports for MY 00/01 are 11.5 MMT, roughly 22.7% of world soybean trade. In the previous MY, China imported 10.42 MMT of soybeans, with the U.S., Brazil and Argentina accounting for 52%, 20% and 26%, respectively. As of now, 5.8 MMT of soybeans have been shipped from the U.S. and 3.3 MMT from South America. The remaining 2.4 MMT will arrive by the end of August.

4. There is no segregation of GMO and non-GMO soybeans in the U.S. at present. As a result, it will cost $50/MT to get U.S. soybeans labeled, to obtain safety certificates, approval documents and pay quarantine fees, as compared to $18-20/MT at present. This increase will undoubtedly lead to a change in China's domestic soybean prices.

If price increases cause China's soybean imports to drop sharply, both domestic spot market prices and futures market prices for soybeans will surge. By contrast, soybean prices on the Chicago Futures Market will fall, due to the drop in trade. This drop in international markets will cause further distortions in China's soybean prices, leading to an increase in the gap between

supply and demand.

China's current consumption of soybean meal is about 15 MMT, of which only about 500 TMT is supplied through imports. Therefore, the reduced supply of imported soybeans will lead to a shortage of soybean meal. China's feed industry will be seriously damaged because soybean meal is the only major source of vegetable protein for animal feed. Meat prices will rise, contributing to inflation. Most seriously affected, however, will be China's newly established soybean crushing industry. China's annual crush capacity in 2000 was 23 MMT, 10% higher than the previous year. In 2001, China's crushing capacity will grow another 13% to 26 MMT per year. If China restricts soybean imports, all of these newly established crushing facilities will go to waste, and the loss of jobs and tax income from these facilities will be tremendous.

At present, although the EU and Japan have restrictions on GMO soybeans, effective regulations have not actually been implemented. The hazards of GMO soybeans have never been proved. The U.S. began to grow GMO soybeans in 1996, primarily the Monsanto-developed Roundup Ready soybean, which is resistant to the herbicide Roundup. U.S. farmers are happy with the Monsanto-developed soybean, because it can raise yields while lowering production costs. Currently, there is no proof that GMO soybeans are harmful, and the argument has only been going on for 3-5 years. Therefore, our conclusion is that, at least in the near future, neither production nor demand for GMO soybeans will be reduced.

At present, although the "Regulation on the Safety Administration of Agricultural GMOs" [China's new GMO regulation] has been announced, the details of implementation are still being discussed. If China unilaterally restricts imports of GMO soybeans, this may trigger an intensified dispute with our trade partners, which could become an obstacle to China's accession to the WTO.

[End translation]